



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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AUDITOR-CONTROLLER

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September 25, 2007

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: SHERIFF'S DEPARTMENT COMMISSARY AUDIT FOLLOW-UP

On April 12, 2007, we sent your Board an audit report on the Sheriff's Department's contract with Compass Group USA, Inc. (Compass) to sell commissary items to Custody Division inmates. The contract required Compass to pay the County 31% of all net commissary sales, and to split profits in excess of 6% of total net sales with the County. The County's share of the profits is deposited into the Sheriff's Inmate Welfare Fund. Compass paid the County approximately \$22 million over the term of the contract.

The audit by a contract Certified Public Accounting firm, Conrad and Associates, LLP, reported that Compass generally complied with the contract. However, Conrad questioned \$1.28 million in expenditures claimed by Compass, which reduced Compass' profit and the amount Compass paid to the County. Conrad indicated that the questioned expenditures may have resulted in Compass underpaying the County approximately \$640,213 in additional shared profit.

Subsequent to our April 12, 2007 report, we met with representatives of Compass, the Sheriff, the Office of Independent Review, the District Attorney and the Chief Executive Office. Compass agreed that \$1.1 million of the questioned expenses, while legitimate business expenses, should not have been used to reduce the amount that was paid to the County. Compass provided documentation indicating that \$176,509 of the questioned costs were appropriate costs that should have reduced the amount owed to

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the County. Based on this information, Compass owes the County \$551,959 in additional shared profit.

Compass agreed to pay the County the additional profit. We are currently working with Compass, the Sheriff and County Counsel to finalize a settlement agreement and arrange payment to the County from Compass.

Further, as discussed in our April 12, 2007 memo to the Board, Conrad reported that Compass had incurred \$169,446 in hospitality expenditures which included meals and entertainment for Sheriff's Department employees. We also indicated that Sheriff's personnel acceptance of these gifts is a violation of Sheriff's Department policy and could be a violation of the California Fair Political Practices Act.

Subsequent to our report to the Board, Compass gave us information which identified County employees who received approximately \$11,000 of the total client hospitality expenditures. Compass indicated that the remaining \$158,000 in client hospitality expenditures were either client hospitality costs for other, non-County contracts (approximately \$100,000), donations to Sheriff or other activities (approximately \$34,000), or were client hospitality gifts for Sheriff employees for which Compass could not locate documentation to identify who received the gifts (approximately \$24,000). We sent the information we received from Compass to the Sheriff, the Office of Independent Review and the District Attorney. They will use it to determine whether any action should be taken with the personnel involved.

Please call me if you have any questions or your staff may contact Jim Schneiderman at (626) 293-1101.

JTM:MMO:JLS

c: William T Fujioka, Chief Executive Officer
Leroy Baca, Sheriff
Steve Cooley, District Attorney
Raymond G. Fortner, Jr., County Counsel
Michael J. Gennaco, Office of Independent Review
Sachi A. Hamai, Executive Officer
Public Information Office
Audit Committee